

ORIGINAL



MEMORANDUM

30

TO: Docket Control

FROM: Ernest Johnson
for Director
Utilities Division

DATE October 14, 2008

RE: STAFF REPORT FOR UTILITY SYSTEMS, LLC. DBA CHRISTOPHER CREEK HAVEN WATER COMPANY (DOCKET NO. W-20459A-08-0168)

Attached is the Staff Report for Utility Systems, LLC. dba Christopher Creek Haven Water Company's application for a permanent rate increase. Staff recommends approval of its rates and charges as shown in Schedule PMC-4.

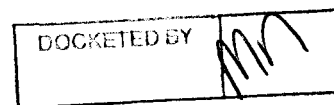
Any party who wishes may file comments to the Staff Report with the Commission's Docket Control by 4:00 p.m. on or before October 24, 2008.

EGJ:PMC:red

Originator: Pedro M. Chaves

Arizona Corporation Commission
DOCKETED

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Service List for: Utility Systems, LLC. dba Christopher Creek Haven Water Company
Docket No. W-20459A-08-0168

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**STAFF REPORT
UTILITIES DIVISION
ARIZONA CORPORATION COMMISSION**

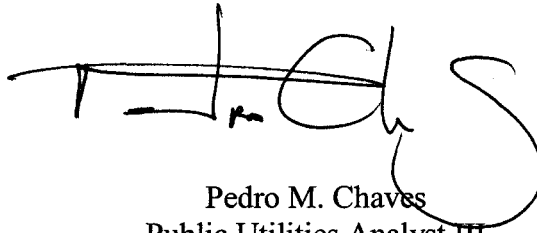
**UTILITY SYSTEMS, LLC DBA
CHRISTOPHER CREEK HAVEN WATER COMPANY
DOCKET NO. W-20459A-08-0168**

**APPLICATION
FOR A
PERMANENT RATE INCREASE**

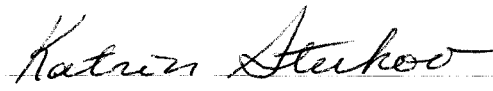
OCTOBER 14, 2008

STAFF ACKNOWLEDGMENT

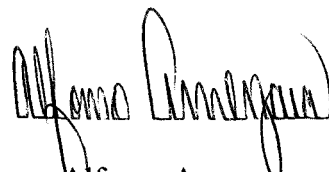
The Staff Report for Utility Systems, LLC. dba Christopher Creek Haven Water Company (Docket No. W-20459A-08-0168) is the responsibility of the Staff members listed below. Pedro M. Chaves is responsible for the review and analysis of the permanent rate increase, Staff's revenue requirement, rate base and rate design. Katrin Stukov is responsible for the engineering and technical analysis. Alfonso Amezcua is responsible for reviewing customer complaints filed with the Commission.



Pedro M. Chaves
Public Utilities Analyst III



Katrin Stukov
Utilities Engineer



Alfonso Amezcua
Public Utilities Consumer Analyst II

**EXECUTIVE SUMMARY
UTILITY SYSTEMS, LLC. DBA
CHRISTOPHER CREEK HAVEN WATER COMPANY
DOCKET NO. W-20459A-08-0168**

Utility Systems, LLC dba Christopher Creek Haven Water Company ("Christopher Creek" or "Company") is located in the town of Christopher Creek, northeast of Payson, Arizona, in Gila County. The Company is engaged in the business of providing utility water service to approximately 172 customers.

The Company's rate application proposes, as filed, a \$49,853, or an 88.35 percent revenue increase over test year revenue of \$56,424. The Company's proposed revenues of \$106,277, as filed, result in an operating income of \$66,852 for an operating margin of 62.90 percent. The Company's proposed rates would increase the typical 5/8 x 3/4 -inch meter residential bill with a median usage of approximately 755 gallons from \$20.77 to \$40.55 for an increase of \$19.78 or 95.23 percent.

Staff recommends no increase over adjusted test year revenue of \$57,897. Staff's recommended revenues of \$57,897 would result in an operating income of \$13,873 for an operating margin of 23.96 percent. Staff's recommended rates are a continuation of the existing rate design and hence, would maintain the typical 5/8 x 3/4 -inch meter residential bill with a median usage of 755 gallons at \$20.77 for a zero increase.

Staff recommends its rates and charges as presented on Schedule 4 of this report.

Staff recommends:

- Approval of Staff's rates and charges as presented on Schedule 4 of this report.
- Approval of Staff's Service Line and Meter Installation Charges as shown in Table D of the Engineering Report (Attachment A).
- Authorization of the depreciation rates shown in Table C of the Engineering Report (Attachment A).
- That the Company continue to monitor the water system closely and take action to ensure that water loss remains less than 10 percent in the future. If the water loss at any time before the next rate case is greater than 10 percent, the Company shall come up with a plan to reduce water loss to less than 10 percent, and prepare a report containing a detailed analysis and explanation demonstrating why a water loss reduction to 10 percent or less is not feasible or cost effective. Such a report shall be docketed under this docket. That Utility Systems, LLC be required to report the customer count information separately for each of its two independent water systems in future Annual Reports.

- That the Company file as a compliance item in this docket no later than December 31, 2008, the documentation issued by ADWR indicating that the Company's System Water Plan met ADWR requirements.
- That the Commission order Christopher Creek to maintain its records in accordance with the National Association of Regulatory Utility Commissioners ("NARUC") Uniform System of Accounts ("USOA").
- That the Commission order the Company to file an affidavit with Docket Control, no later than March 31, 2009, stating that its books and accounting records are in compliance with NARUC USOA.
- That the Company file with Docket Control, as a compliance item in this docket, a schedule of its approved rates and charges within 30 days after the Decision in this matter is issued.

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SCHEDULES

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Typical Bill Analysis	Schedule PMC-5

ATTACHMENTS

Engineering Memorandum	Attachment A
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Fact Sheet

Company:

Current Rates: Decision No. 65353, dated November 1, 2002.

Type of Ownership: Limited Liability Company

Location: The Company is located in the town of Christopher Creek, northeast of Payson, in Gila County, Arizona. The Company is not located in an Active Management Area ("AMA").

Rates:

Permanent rate increase application filed: March 21, 2008.

Current test year ended: December 31, 2007.

Prior test year ended: December 31, 2001.

Monthly Charges:

	<u>Current Rates</u>	<u>Company Proposed Rates</u>	<u>Staff Recommended Rates</u>
Monthly Minimum Charge 5/8 x 3/4 – inch meter	\$17.75	\$33.00	\$17.75
Gallons in Minimum	0	0	0
Commodity Charge:			
0 to 4,000 gallons (per 1,000 gallons)	\$4.00		
4,001 to 12,000 gallons (per 1,000 gallons)	\$4.75		
Over 12,000 gallons (per 1,000 gallons)	\$8.00		
0 to 5,000 gallons (per 1,000 gallons)		\$5.50	
5,001 to 10,000 gallons (per 1,000 gallons)		\$8.00	
Over 10,000 gallons (per 1,000 gallons)		\$15.00	
0 to 4,000 gallons (per 1,000 gallons)			\$4.00
4,001 to 12,000 gallons (per 1,000 gallons)			\$4.75
Over 12,000 gallons (per 1,000 gallons)			\$8.00

Typical residential bill:

	<u>Current Rates</u>	<u>Company Proposed Rates</u>	<u>Staff Recommended Rates</u>
Average use (2,135 gallons)	\$26.29	\$54.35	\$26.29
Median use (755 gallons)	\$20.77	\$40.55	\$20.77

Customers:

Number of customers in prior test year (12/31/01): 166

Number of customers in the current test year (12/31/07): 172

Current test year customers by meter size:

5/8 X 3/4 – inch 172

Customer notification for rate application filed: March 19, 2008.

Number of customer complaints and/or opinions concerning rate/financing applications filed: 5 opinions.

Percentage of complaints/opinions to customer base: 3 percent

Summary of Filing

The test year results for Utility Systems, LLC. dba Christopher Creek Haven Water Company ("Christopher Creek" or "Company"), as adjusted by the Arizona Corporation Commission ("Commission") Utilities Division ("Staff"), reflect total operating revenue of \$57,897 and an operating income of \$13,873 on an Original Cost Rate Base ("OCRB") of \$115,022 for a 12.06 percent rate of return and an operating margin of 23.96 percent, as shown in Schedule PMC-1.

The Company's proposed rates, as filed, would produce total operating revenue of \$106,277 and operating income of \$66,852, or a 34.92 percent rate of return and a 62.90 percent operating margin. The Company's proposed rates would increase the typical residential bill with a median usage of 755 gallons by \$19.78 (or 95.23 percent), from \$20.77 to \$40.55 per month, as shown in Schedule PMC-5.

Staff's recommended rates would maintain the typical 5/8 x 3/4-inch meter residential bill with a median usage of 755 gallons at \$20.77 per month, as shown on Schedule PMC-5. Staff recommends rates that would produce total operating revenue of \$57,897, operating income of \$13,873, a 12.06 percent rate of return and an operating margin of 23.96 percent.

Background

Christopher Creek is an Arizona Limited Liability Company engaged in the business of providing water services located in the town of Christopher Creek, northeast of Payson, in Gila County, Arizona. The Company received its Certificate of Convenience and Necessity ("CC&N") through a transfer authorized in Decision No. 69421, dated April 16, 2007. Christopher Creek's current rates were established in Decision No. 65353, dated November 1, 2002.

On March 31, 2008, Christopher Creek filed an application for a permanent rate increase, pursuant to Decision No. 65353. On April 17, 2008, Staff filed a Letter of Deficiency. Staff issued a Letter of Sufficiency on June 18, 2008. A Procedural Order dated August 21, 2008, directed Staff to file its report by October 13, 2008. The Company provided evidence in its application that customers had been notified of the filing of the rate case by mail on March 19, 2008.

Consumer Services

Staff reviewed the Commission's records and found zero complaints and five opinions for the period January 1, 2005, through August 27, 2008. The five opinions were against the pending rate increase.

Engineering Analysis and Recommendations

Staff inspected the Company's plant facilities on April 15, 2008. A complete discussion of Staff's technical findings and recommendations and a complete description of the water system are provided in the attached Engineering Report (Attachment A).

Staff recommends that Christopher Creek continue to monitor the water system closely and take action to ensure that water loss remains less than 10 percent in the future. If the water loss at any time before the next rate case is greater than 10 percent, the Company shall come up with a plan to reduce water loss to less than 10 percent, and prepare a report containing a detailed analysis and explanation demonstrating why a water loss reduction to 10 percent or less is not feasible or cost effective. Such a report shall be docketed under this docket.

Staff recommends that the Company adopt the Depreciation Rate Table ordered in Decision No. 65353, as delineated in Table C of the Engineering Report.

Staff recommends approval of its service line and meter installation charges labeled "Staff's Recommendation" in Table D of the Engineering Report.

Staff recommends that Utility Systems, LLC be required to report the customer count information separately for each of its two independent water systems in future Annual Reports.

Compliance

Christopher Creek is current on its Utilities and Corporations annual reports. Christopher Creek is also current on its sales and property tax payments.

Decision No. 69421, ordered the Company to maintain its books and records in accordance with the National Company of Regulatory Utility Commissioners ("NARUC") Uniform System of Accounts ("USOA").

Staff's review revealed that the Company does not maintain adequate records and could not produce supporting documentation for its plant additions and retirements. The Company's recordkeeping is not in compliance with NARUC USOA.

Staff urges Christopher Creek to maintain its books and records in accordance with NARUC USOA. The Company should file an affidavit with Docket Control, no later than March 31, 2009, stating that its books and accounting records are in compliance with NARUC USOA.

Rate Base

Staff's adjustments decreased the Company's proposed rate base by \$76,427, from \$191,449 to \$115,022, as shown in Schedule PMC-2, page 1. Details of Staff's adjustments are discussed below.

Plant In Service – Adjustment A reclassifies the plant in service to reflect the balances authorized in the prior rate case, Decision No. 69421, as the beginning balances. Adjustment B removes unsupported plant additions in the amount of \$500. Adjustment C removes a vehicle not owned by the utility.

Accumulated Depreciation – Adjustment D increases Accumulated Depreciation by \$66,244, from \$19,310 to \$85,554, as shown in schedule PMC-2, page 3. Staff calculated its balance starting with the balances authorized in the prior rate case and applying the authorized depreciation rates to Staff's recommended plant balances for the intervening years.

Working Capital – Adjustment E provides a cash working capital allowance of \$3,269 based on the formula method. The formula method recognizes one-eighth of the operating expenses excluding depreciation, taxes, purchased power expenses plus one twenty-fourth of purchased power expenses. Christopher Creek did not claim a cash working capital allowance.

Operating Income Statement

Staff's adjustments decreased the Company's test year operating income by \$3,126, from \$16,999 to \$13,873, as shown in Schedule PMC-3 page 1. Details of Staff's adjustments to operating revenues and expenses are discussed below.

Operating Revenue

Metered Water Revenue – Adjustment A increases this account by \$1,473, from \$55,253 to \$56,726, to reflect the appropriate revenue produced by the billing determinants.

Operating Expenses

Staff's adjustments to operating expenses resulted in a net increase of \$4,599, from \$39,425 to \$44,024.

Water Testing Expense – Adjustment B increases this account by \$564, from \$1,500 to \$2,064, to reflect the water testing expense per the Engineering Report.

Transportation Expenses – Adjustment C increases this account by \$4,200, from \$2,012 to \$6,212, to recognize an annual truck lease of \$8,400 shared equally with Gardner Water Company.

Rate Case Expense – Adjustment D increases this account by \$500. The Company did not request any rate case expense in its application.

Depreciation Expense – Adjustment E decreases this account by \$667, from \$12,874 to \$12,207, as shown on Schedule PMC-3, pages 1 and 2. This adjustment reflects application of Staff's recommended depreciation rates as shown in Table C of the Engineering Report to Staff's recommended depreciable plant balances on a going-forward basis.

Interest Expense – Adjustment F reduces this account by \$13,679, from \$13,679 to \$0, to disallow interest expense on loans that were not incurred by the Company.

Revenue Requirement

Staff recommends total operating revenue of \$57,897, a zero increase over the Staff adjusted test year operating revenue of \$57,897. Staff's recommended revenue provides an operating income of \$13,873, a 12.06 rate of return and an operating margin of 23.96 percent as shown in Schedule PMC-1.

Rate Design

Schedule PMC-4 presents a complete list of the Company's present, proposed, and Staff's recommended rates and charges.

The present rate design is an inverted, three-tier commodity rate structure with breakover points at 4,000 and 12,000 gallons for all meter sizes with no gallons in the minimum.

The Company proposes to continue use of a three-tier rate structure. However, the proposed rate structure has breakover points at 5,000, and 10,000 gallons for all meter sizes with no gallons in the minimum. The Company's proposed rates would increase the median usage (755 gallon) 5/8 x 3/4-inch meter residential customer's bill from \$20.77 to \$40.55, an increase of \$19.78 or 95.23 percent.

Staff recommends the Commission maintains the existing rate design (i.e. an inverted, three-tier commodity rate structure with breakover points at 4,000 and 12,000 gallons for all meter sizes with no gallons in the minimum). Currently, all customers are served by 5/8 x 3/4-inch meters.

The Company proposes new service line and meter installation charges as shown in Schedule PMC-4, page 2 of 2. Staff recommends approval of the "total" charges as shown in Table D of the Revised Engineering Report, with separate charges for the service line and meter portions.

The Company proposes to maintain service charges for Establishment Fee at \$30. Staff finds \$30 to be a reasonable and normal charge and recommends it.

The Company proposes to maintain service charge for Establishment (After hours) at \$40. Staff finds \$40 to be a reasonable and normal charge and recommends it.

The Company proposes to increase service charges for Reconnection (delinquent) from \$30 to \$50. Staff finds \$30 to be a reasonable and normal charge and recommends it.

The Company proposes to increase Meter Tests (if correct) from \$20 to \$100. Staff finds \$25 to be a reasonable and normal charge and recommends it.

The Company proposes to change service charges for Deposit Interest to 1.5 percent. Staff recommends the Company continue to adhere to A.A.C. R14-2-403 B.

The Company proposes to increase non-sufficient funds ("NSF") charges from \$15 to \$35. Staff finds \$25 to be a reasonable and normal charge and recommends it.

The Company proposes to increase Deferred Payments (per month) from 1 percent to 5 percent. Staff finds 1.50 percent of the monthly outstanding balance to be a reasonable and normal charge and recommends it.

The Company proposes to maintain Meter Re-reads (if correct) at \$10. Staff finds \$20 to be a reasonable and normal charge and recommends it.

The Company proposes to increase late payment charge-per month from \$3 to \$10. Staff finds 1.50 percent of the monthly outstanding balance to be a reasonable and normal charge and recommends it.

Staff Recommendations

Staff recommends:

- Approval of Staff's rates and charges as shown in Schedule PMC-4.
- Approval of Staff's Service Line and Meter Installation Charges as shown in Table D of the Engineering Report (Attachment A)
- Authorization of the depreciation rates shown in Table C of the Engineering Report.
- That the Company continue to monitor the water system closely and take action to ensure that water loss remains less than 10 percent in the future. If the water loss at any time before the next rate case is greater than 10 percent, the Company shall come up with a plan to reduce water loss to less than 10 percent, and prepare a report containing a detailed analysis and explanation demonstrating why a water loss reduction to 10 percent or less is not feasible or cost effective. Such a report shall be docketed under this docket.

- That the Company file as a compliance item in this docket no later than December 31, 2008, the documentation issued by ADWR indicating that the Company's System Water Plan met ADWR requirements.
- That Utility Systems, LLC be required to report the customer count information separately for each of its two independent water systems in future Annual Reports.
- That the Commission order Christopher Creek to maintain its records in accordance with NARUC USOA.
- That the Commission order the Company to file an affidavit with Docket Control, no later than March 31, 2009, stating that its books and accounting records are in compliance with NARUC USOA.
- That Christopher Creek file with Docket Control, as a compliance item in this docket, a schedule of its approved rates and charges within 30 days after a Decision in this matter is issued.

SUMMARY OF FILING

	-- Present Rates --		-- Proposed Rates --	
	Company as Filed	Staff as Adjusted	Company as Filed	Staff as Adjusted
Revenues:				
Metered Water Revenue	\$55,253	\$56,726	\$105,106	\$ 56,726
Unmetered Water Revenue	0	0	0	0
Other Water Revenues	1,171	1,171	1,171	1,171
Total Operating Revenue	\$56,424	\$57,897	\$106,277	\$57,897
Operating Expenses:				
Operation and Maintenance	\$23,514	\$28,780	\$23,514	\$28,780
Depreciation	12,874	12,207	12,874	12,207
Property & Other Taxes	3,038	3,038	3,038	3,038
Income Tax	0	0	0	0
Total Operating Expense	\$39,425	\$44,024	\$39,425	\$44,024
Operating Income/(Loss)	\$16,999	\$13,873	\$66,852	\$13,873
Rate Base O.C.L.D.	\$191,449	\$115,022	\$191,449	\$115,022
Rate of Return - O.C.L.D.	8.88%	12.06%	34.92%	12.06%
Operating Margin	30.13%	23.96%	62.90%	23.96%

RATE BASE

	----- Original Cost -----		
	Company	Adjustment	Staff
Plant in Service	\$210,759	(\$13,453) A,B, C	\$197,307
Less:			
Accum. Depreciation	19,310	66,244 D	85,554
Net Plant	\$191,449	(\$79,697)	\$111,753
Less:			
Plant Advances	\$0	\$0	\$0
Accumulated Deferred Income Taxes	0	0	0
Total Advances	\$0	\$0	\$0
Contributions Gross	\$0	\$0	\$0
Less:			
Amortization of CIAC	0	0	0
Net CIAC	\$0	\$0	\$0
Total Deductions	\$0	\$0	\$0
Plus:			
1/24 Power	\$0	\$164 E	\$164
1/8 Operation & Maint.	0	3,105 E	3,105
Inventory	0	0	0
Prepayments	0	0	0
Total Additions	\$0	\$3,269	\$3,269
Rate Base	\$191,449	(\$76,427)	\$115,022

Explanation of Adjustment:

- A - Refer to Schedule PMC-2, Page 2.
- B - Refer to Schedule PMC-2, Page 2.
- C - Refer to Schedule PMC-2, Page 2
- D - Refer to Schedule PMC-2, Page 3.
- E - To provide cash working capital allowance based on the formula method.

PLANT ADJUSTMENT

	Company Exhibit	Adjustment	Staff Adjusted
301 Organization	\$770	(\$217) A	\$553
302 Franchises	0	0	0
303 Land & Land Rights	6,085	8,529 A	14,614
304 Structures & Improvements	9,759	0	9,759
307 Wells & Springs	26,028	0	26,028
311 Pumping Equipment	14,274	(0)	14,274
320 Water Treatment Equipment	0	0	0
320.1 Water Treatment Plants	3,000	0	3,000
320.2 Solution Chemical Feeders	3,085	0	3,085
330 Distribution Reservoirs & Standpipes	0	0	0
330.1 Storage Tanks	34,243	0	34,243
330.2 Pressure Tanks	15,327	(0)	15,327
331 Transmission & Distribution Mains	35,773	0	35,773
333 Services	11,600	0	11,600
334 Meters & Meter Installations	22,350	0	22,350
335 Hydrants	0	0	0
336 Backflow Prevention Devices	0	0	0
339 Other Plant and Misc. Equipment	0	0	0
340 Office Furniture & Equipment	163	0	163
340.1 Computers and Software	750	(750) A, B	0
341 Transportation Equipment	21,015	(21,015) C	0
343 Tools Shop & Garage Equipment	1,538	(0)	1,538
344 Laboratory Equipment	0	0	0
345 Power Operated Equipment	5,000	0	5,000
346 Communication Equipment	0	0	0
347 Miscellaneous Equipment	0	0	0
348 Other Tangible Plant	0	0	0
105 C.W.I.P.	0	0	0
TOTALS	\$210,759	\$ (13,453)	\$197,307

Explanation of Adjustment:

- A - To reflect the balances authorized in the prior rate case (Decision No. 65353, dated November 1, 2002.). For accounts 301 and 340.1 the adjustment decrease is \$217 and \$500, respectively. For account 303 the adjustment increase is \$8,529.
- B - To remove unsupported plant additions (\$250).
- C - To remove a vehicle not owned by the utility.

ACCUMULATED DEPRECIATION ADJUSTMENT

	Amount
Accumulated Depreciation - Per Company	\$19,310
Accumulated Depreciation - Per Staff	85,554 D
Total Adjustment	\$66,244

Explanation of Adjustment:

- D - Staff calculated accumulated depreciation using the balances authorized in the prior rate case (Decision No. 65353) as the beginning balances and applying the authorized depreciation rates to Staff's recommended plant balances for the intervening years.

ACCT		ACCUMULATED DEPRECIATION		
No.	Description	Staff Calculated	Company Application	Staff Adjustment
301	Organization	\$ -	\$ -	\$ -
303	Land and Land Rights	-	-	-
304	Structures and Improvements	3,199	487	2,711
307	Wells and Srings	3,942	1,300	2,642
311	Pumping Equipment	13,312	2,676	10,636
320	Water Treatment Equipment	5,436	-	5,436
320.1	Water Treatment Plants	-	150	(150)
320.2	Solution Chemical Feeders	-	926	(926)
330	Distribution Reservoirs & Standpipes	13,920	-	13,920
330.1	Storage Tanks	-	1,140	(1,140)
330.2	Pressure Tanks	-	1,150	(1,150)
331	Transmission & Distribution Mains	6,156	1,073	5,083
333	Services	3,428	579	2,849
334	Meters & Meter Installations	8,046	2,793	5,253
335	Hydrants	-	-	-
336	Backflow Prevention Devices	-	-	-
339	Other Plant and Misc. Equipment	2,027	-	2,027
340	Office Furniture & Equipment	1,344	16	1,328
340	Computers and Software	-	225	(225)
341	Transportation Equipment	15,057	6,304	8,753
343	Tools Shop & Garage Equipment	1,736	115	1,621
344	Laboratory Equipment	-	-	-
345	Power Operated Equipment	7,950	375	7,575
346	Communication Equipment	-	-	-
	Total	\$ 85,554	\$ 19,310	\$ 66,244

STATEMENT OF OPERATING INCOME

	Company Exhibit	Staff Adjustments	Staff Adjusted
Revenues:			
461 Metered Water Revenue	\$55,253	\$1,473 A	\$56,726
460 Unmetered Water Revenue	0	0	0
474 Other Water Revenues	1,171	0	1,171
Total Operating Revenue	\$56,424	\$1,473	\$57,897
Operating Expenses:			
601 Salaries and Wages	\$8,436	\$0	\$8,436
610 Purchased Water	0	0	0
615 Purchased Power	3,939	0	3,939
618 Chemicals	146	0	146
620 Repairs and Maintenance	4,123	0	4,123
621 Office Supplies & Expense	672	0	672
630 Outside Services	1,579	0	1,579
635 Water Testing	1,500	564 B	2,064
641 Rents	0	0	0
650 Transportation Expenses	2,012	4,200 C	6,212
657 Insurance - General Liability	687	0	687
659 Insurance - Health and Life	0	0	0
666 Regulatory Commission Expense - Rate Case	0	500 D	500
675 Miscellaneous Expense	422	0	422
403 Depreciation Expense	12,874	(667) E	12,207
408 Taxes Other Than Income	0	0	0
408.11 Property Taxes	3,038	0	3,038
409 Income Tax	0	0	0
Total Operating Expenses	\$39,425	\$4,599	\$44,024
OPERATING INCOME/(LOSS)	\$16,999	(\$3,126)	\$13,873
Other Income/(Expense):			
419 Interest and Dividend Income	\$0	\$0	\$0
421 Non-Utility Income	0	0	0
427 Interest Expense	13,679	(13,679) E	0
426 Miscellaneous Non-Utility Expense	0	0	0
Total Other Income/(Expense)	(\$13,678)	\$13,679	\$0
NET INCOME/(LOSS)	\$3,321	\$10,552	\$13,873

STAFF ADJUSTMENTS

A -	METERED WATER REVENUE - Per Company	\$55,253	
	Per Staff	56,726	\$1,473

To reflect revenue produced by the billing determinants.

B -	WATER TESTING - Per Company	\$1,500	
	Per Staff	2,064	\$564

To reflect water testing per Engineering Report

C -	TRANSPORTATION EXPENSES - Per Company	\$2,012	
	Per Staff	6,212	\$4,200

To recognize an annual truck lease of \$8400 shared equally with Gardner Water.

D -	RATE CASE EXPENSE - Per Company	\$0	
	Per Staff	500	\$500

To reflect a normalized level of rate case expense.

E -	DEPRECIATION EXPENSE - Per Company	\$12,874	
	Per Staff	12,207	(\$667)

To apply Staff's recommended depreciation rates to plant by account.

F -	INTEREST EXPENSE - Per Company	\$13,679	
	Per Staff	0	(\$13,679)

To disallow interest expense on non-utility loans.

STAFF ADJUSTMENTS

A -	METERED WATER REVENUE - Per Company	\$55,253	
	Per Staff	56,726	\$1,473

To reflect revenue produced by the billing determinants.

B -	WATER TESTING - Per Company	\$1,500	
	Per Staff	2,064	\$564

To reflect water testing per Engineering Report

C -	TRANSPORTATION EXPENSES - Per Company	\$2,012	
	Per Staff	6,212	\$4,200

To recognize an annual truck lease of \$8400 shared equally with Gardner Water.

D -	RATE CASE EXPENSE - Per Company	\$0	
	Per Staff	500	\$500

To reflect a normalized level of rate case expense.

E -	DEPRECIATION EXPENSE - Per Company	\$12,874	
	Per Staff	12,207	(\$667)

To apply Staff's recommended depreciation rates to plant by account.

F -	INTEREST EXPENSE - Per Company	\$13,679	
	Per Staff	0	(\$13,679)

To disallow interest expense on non-utility loans.

RATE DESIGN

Monthly Usage Charge	Present	-Proposed Rates-	
	Rates	Company	Staff
5/8" x 3/4" Meter	\$17.75	\$33.00	\$ 17.75
3/4" Meter	33.56	43.00	33.56
1" Meter	63.39	63.00	63.39
1½" Meter	105.26	113.00	105.26
2" Meter	167.96	173.00	167.96
3" Meter	301.59	N/A	301.59
4" Meter	485.58	N/A	485.58
6" Meter	727.73	N/A	727.73
Gallons in Minimum	0.00	0.00	0.00
<u>Company Current & Staff Recommended Commodity Charge</u>			
First Tier - 0 - 4,000 gallons	4.00		4.00
Second Tier - 4,001 - 12,000 gallons	4.75		4.75
Third Tier - Over 12,000 gallons	6.50		6.50
<u>Company Proposed Commodity Charge</u>			
First Tier - 0 - 5,000 gallons		10.00	
Second Tier - 5,001 - 10,000 gallons		12.00	
Third Tier - 10,001 - 20,000 gallons		15.00	

RATE DESIGN

Service Line and Meter Installation Charges	-----Company's-----		-----Staff Recommended-----		
	Present Rates	Proposed Charges	Service Line Charges	Meter Charges	Total Charges
5/8" x 3/4" Meter	\$480.00	\$600.00	\$445.00	\$465.00	\$ 910.00
3/4" Meter	550.00	700.00	445.00	565.00	\$ 1,010.00
1" Meter	630.00	810.00	495.00	315.00	\$ 810.00
1½" Meter	800.00	1,075.00	550.00	525.00	\$ 1,075.00
2" Meter	1,450.00	1,875.00	830.00	1,045.00	\$ 1,875.00
3" Meter	1,975.00	N/A	1,045.00	1,670.00	\$ 2,715.00
4" Meter	3,040.00	N/A	1,490.00	2,670.00	\$ 4,160.00
6" Meter	5,795.00	N/A	2,210.00	5,025.00	\$ 7,235.00
Service Charges					
Establishment	\$30.00	\$75.00	\$30.00		
Establishment (After Hours)	40.00	0.00	40.00		
Reconnection (Delinquent)	30.00	50.00	30.00		
Reconnection (Delinquent) after hours	40.00	50.00	40.00		
Meter Test (If Correct)	20.00	25.00	25.00		
Deposit	*	*	*		
Deposit Interest Per Annum	*	1.50%	*		
Re-Establishment (Within 12 Months)	**	**	**		
NSF Check	15.00	35.00	25.00		
Deferred Payment - Per Month	1.00%	5.00%	1.50%		
Meter Re-Read (If Correct)	10.00	10.00	20.00		
Late Payment Charge-Per Month	3.00	10.00	1.50%		

* Per Commission Rules (R14-2-403.B)

** Months off system times the minimum (R14-2-403.D)

*** 1.00% of Monthly Minimum for a Comparable Sized Meter Connection, but no less than \$5.00 per month. The Service Charge for Fire Sprinklers is only applicable for service lines separate and distinct from the primary water service line.

Utility Systems, LLC dba Christopher Creek Water Company

Docket No. W-20459A-08-0168

Test Year Ended: December 31, 2007

Schedule PMC-5

Page 1 of 1

TYPICAL BILL ANALYSIS

General Service 5/8 X 3/4 - Inch Meter

Average Number of Customers: 171

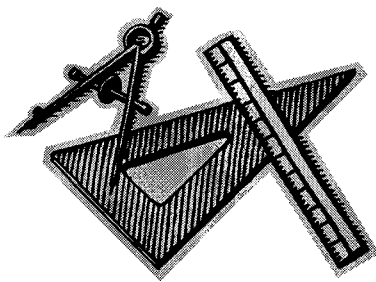
<u>Company Proposed</u>	<u>Gallons</u>	<u>Present Rates</u>	<u>Proposed Rates</u>	<u>Dollar Increase</u>	<u>Percent Increase</u>
Average Usage	2,135	\$26.29	\$54.35	\$28.06	106.73%
Median Usage	755	\$20.77	\$40.55	\$19.78	95.23%

<u>Staff Recommend</u>					
Average Usage	2,135	\$26.29	\$26.29	\$0.00	0.00%
Median Usage	755	\$20.77	\$20.77	\$0.00	0.00%

Present & Proposed Rates (Without Taxes)

General Service 5/8 X 3/4 - Inch Meter

<u>Gallons Consumption</u>	<u>Present Rates</u>	<u>Company Proposed Rates</u>	<u>% Increase</u>	<u>Staff Proposed Rates</u>	<u>% Increase</u>
0	\$17.75	\$33.00	85.9%	\$17.75	0.0%
1,000	21.75	43.00	97.7%	21.75	0.0%
2,000	25.75	53.00	105.8%	25.75	0.0%
3,000	29.75	63.00	111.8%	29.75	0.0%
4,000	33.75	73.00	116.3%	33.75	0.0%
5,000	38.50	83.00	115.6%	38.50	0.0%
6,000	43.25	95.00	119.7%	43.25	0.0%
7,000	48.00	107.00	122.9%	48.00	0.0%
8,000	52.75	119.00	125.6%	52.75	0.0%
9,000	57.50	131.00	127.8%	57.50	0.0%
10,000	62.25	143.00	129.7%	62.25	0.0%
15,000	91.25	218.00	138.9%	91.25	0.0%
20,000	123.75	293.00	136.8%	123.75	0.0%
25,000	156.25	368.00	135.5%	156.25	0.0%
50,000	318.75	743.00	133.1%	318.75	0.0%
75,000	481.25	1,118.00	132.3%	481.25	0.0%
100,000	643.75	1,493.00	131.9%	643.75	0.0%
125,000	806.25	1,868.00	131.7%	806.25	0.0%
150,000	968.75	2,243.00	131.5%	968.75	0.0%
175,000	1,131.25	2,618.00	131.4%	1,131.25	0.0%
200,000	1,293.75	2,993.00	131.3%	1,293.75	0.0%



**ENGINEERING REPORT FOR UTILITY SYSTEMS, LLC
DBA CHRISTOPHER CREEK HAVEN WATER
COMPANY**

DOCKET NO. W-20459A-08-0168 (Rates)

June 17, 2008

CONCLUSIONS

1. The Arizona Department of Environmental Quality ("ADEQ") has determined that the Christopher Creek system is currently delivering water that meets the water quality standards required by Arizona Administrative Code, Title 18, Chapter 4.
2. The Company's water system has a water loss of 9.8 percent. This percentage is within acceptable limit of 10 percent.
3. The Company water system's well production and storage capacities are adequate to serve the present customer base and a reasonable level of growth.
4. The Company is not located in an Active Management Area ("AMA"). The Arizona Department of Water Resources ("ADWR") has determined that the Company's water system is in compliance with the reporting requirements, and upon completion of its review of the Company's System Water Plan, which includes a Water Supply Plan, Drought Preparedness Plan and Water Conservation Plan, ADWR will issue the documentation stating whether or not the System Water Plan filed met ADWR requirements.
5. A check with Utilities Division Compliance Section showed that there are currently no delinquent compliance items for Utility Systems.
6. The Company has an approved curtailment plan tariff.
7. The Company has a backflow prevention tariff.

RECOMMENDATIONS

1. Staff recommends that the Company continue to monitor the water system closely and take action to ensure that water loss remains less than 10 percent in the future. If the water loss at any time before the next rate case is greater than 10 percent, the Company shall come up with a plan to reduce water loss to less than 10 percent, or prepare a report containing a

detailed analysis and explanation demonstrating why a water loss reduction to 10 percent or less is not feasible or cost effective. Such a report shall be docketed in this case.

2. Staff recommends its annual water testing expense of \$2,064 be used for this proceeding.
3. Staff recommends that the Company adopt Depreciation Rate Table ordered in Decision No. 65353 as delineated in Table C.
4. Staff recommends approval of its service line and meter installation charges labeled "Staff's Recommendation" in Table D.
5. Staff recommends that the Company file as a compliance item in this docket no later than December 31, 2008, the documentation issued by ADWR indicating that the Company's System Water Plan met ADWR requirements.
6. Staff recommends that Utility Systems be required to report the customer count information separately for each of its two independent water systems in future Annual Reports.

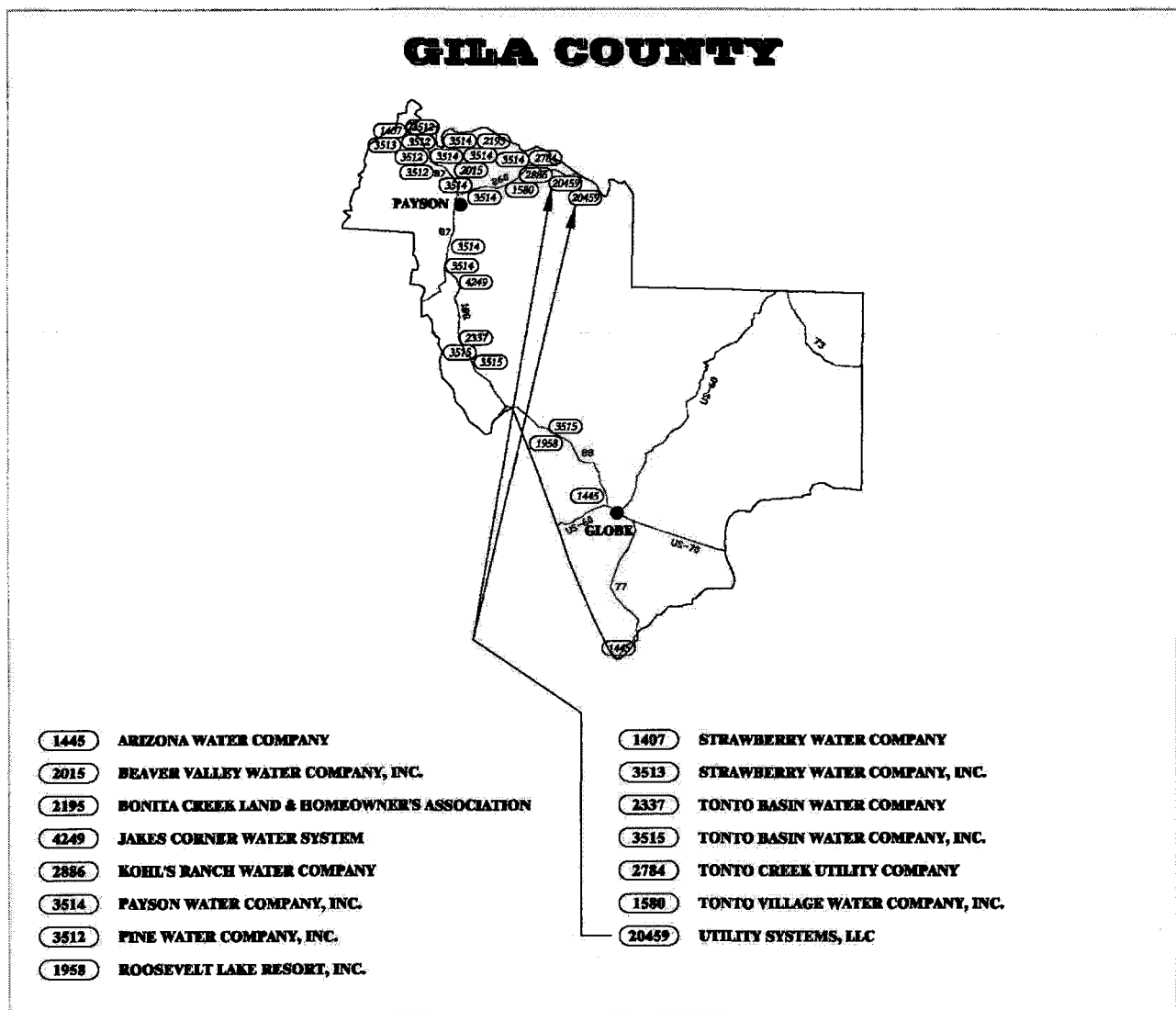
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A. INTRODUCTION AND LOCATION OF COMPANY

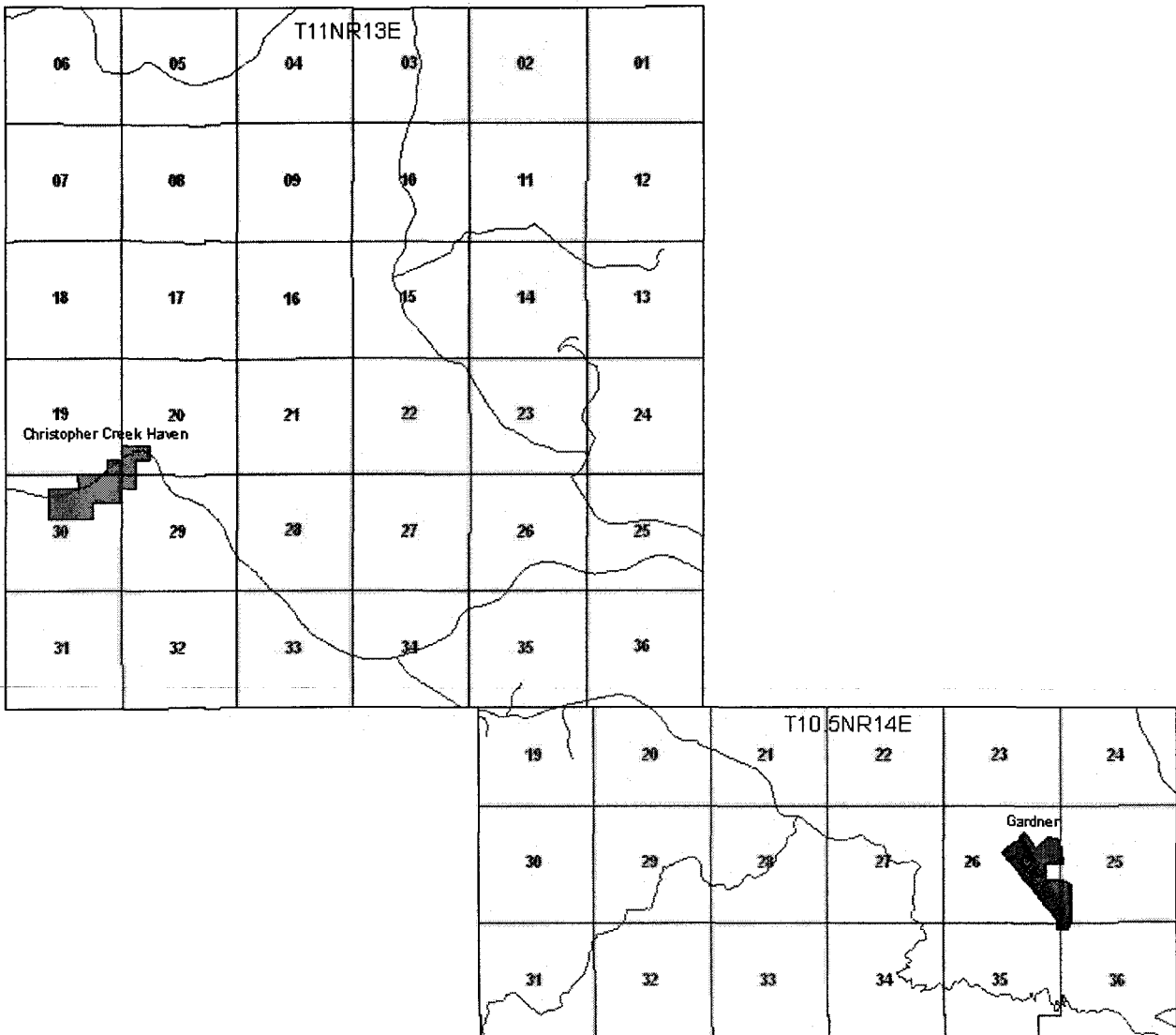
Utility Systems, LLC (“Utility Systems”) operates two independent water systems (dba Christopher Creek Haven Water Company and Gardner Water Company¹). On March 21, 2008 Utility Systems filed a rate application for the Christopher Creek Haven Water Company (“Christopher Creek” or “Company”) with the Arizona Corporation Commission (“ACC” or “Commission”). Christopher Creek’s service area is located approximately 20 miles east of Payson on Highway 260 in Gila County. Figure 1 shows the location of the Company within Gila County and Figure 2 delineates the approximate 160 acres of Christopher Creek’s certificated area.

Figure 1



¹ See Docket No. W-20459A-08-0167

Figure 2



B. DESCRIPTION OF THE WATER SYSTEMS

The Christopher Creek water system was visited on April 15, 2008, by Katrin Stukov, Staff Utilities Engineer, in the accompaniment of Jeffrey T. Daniels, the Company's owner and manager. The water system consists of four wells (with total production capacity of 81 gallons per minute), which pump into a series of storage tanks (with total storage capacity of 40,080 gallons), followed by booster pumps, pressure tanks and a distribution system serving 172 metered connections. The water system includes three Well Sites (identified as Site #1 through Site #3 in Table A and Figure 3 below) and two Booster Stations or pressure zones at higher elevations (identified as Site #4 and Site #5 in Table A and Figure 3 below). Disinfection and metering is provided at each well site. A system schematic is shown as Figure 3 and Table A includes a detailed plant facility listing.

Table A. Plant Facilities Summary²

Wells and Components

Site #	ADWR ID#	Well Pump Horsepower (Hp)	Pump Yield (gpm)	Casing Depth (feet)	Casing Diameter (inches)	Meter Size (inches)	Year Drilled	Enclosure
1	55-800712	5	35	430	6	3/4	2004	Shed
1	55-800363	1.5	20	60	6	1	1958	Shed
2	55-800362	1.5	6	300	6	3/4	1978	Shed
3	55-543032	1.5	20	100	6	1	1994	Shed

Water Tanks and Components

Site #	Storage Tanks		Pressure Tanks		Booster Pumps		Components
	Capacity (gallons)	Quantity	Capacity (gallons)	Quantity	Capacity	Quantity	
1	10,000 5,000	1 1	5,000	1	1.5 Hp	1	Filter Chlorination system Shed
2	10,000	1	80	2	2 Hp	1	Filter Chlorination system Shed
3	10,000	1	80	1	1.5	1	Filter Chlorination system Shed
4	5,000	1	80	1	2	1	Shed
5	80	1	80	1	2	1	Shed

Mains

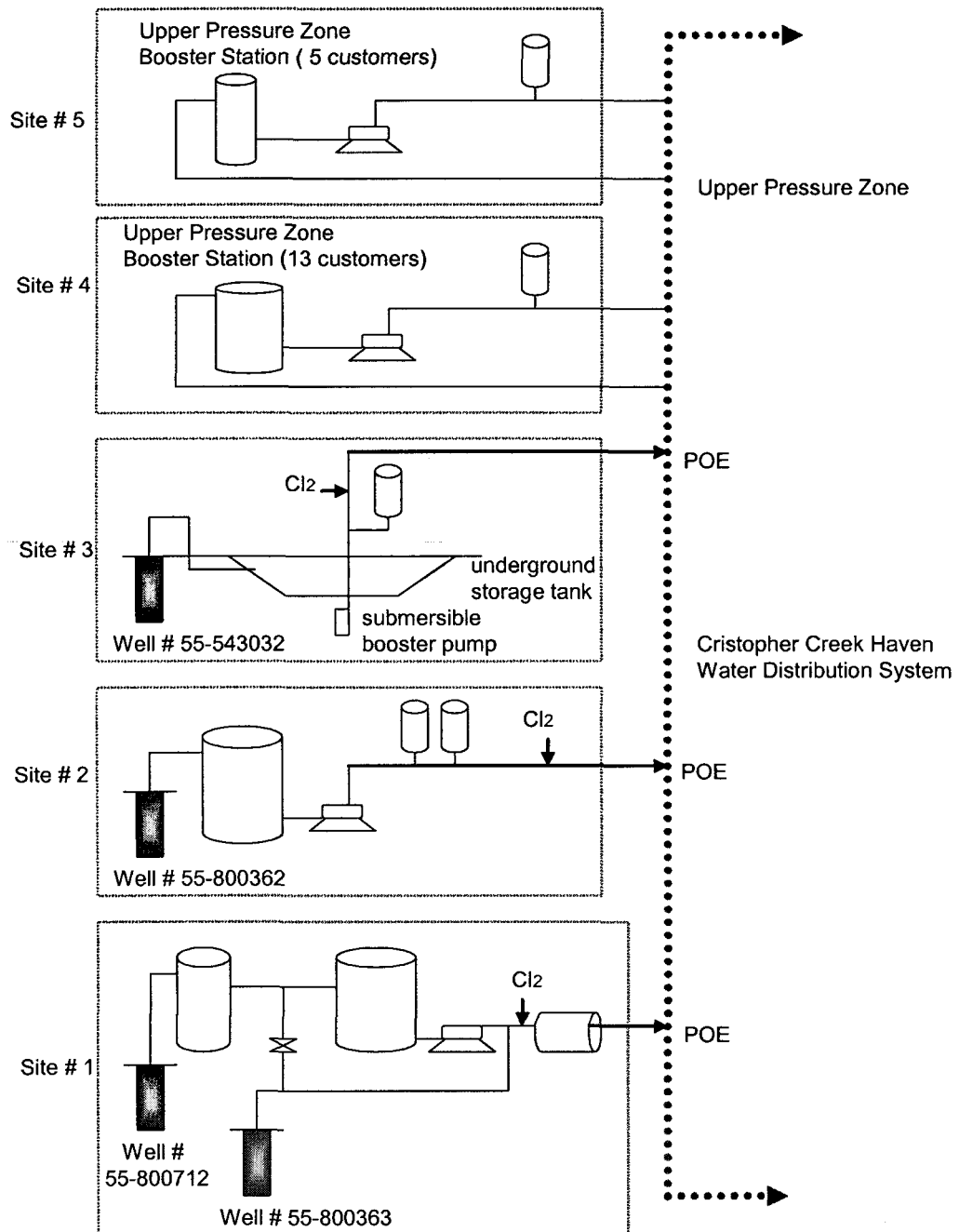
Size (inches)	Material	Length (feet)
2	Galvanized	5,416
2	PVC	390
3	Galvanized	555
4	Galvanized	4,080

Customer Meters

Size (inches)	Quantity
5/8 x 3/4	172

² Based on the Company's application and Staff's site visit

Figure 3 System Schematic

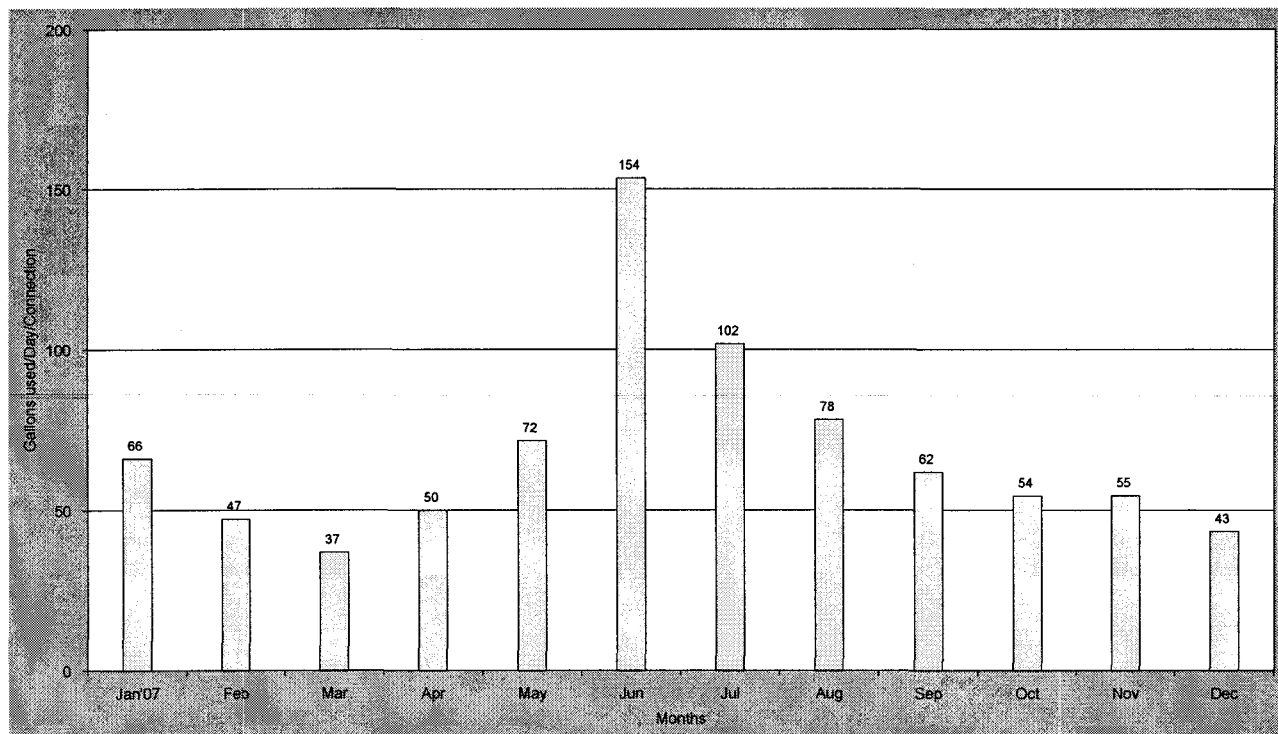


C. WATER USE

Water Sold

Figure 4 represents the water consumption data for the test year ending December 31, 2007, provided by the Company in its water use data sheet. Customer consumption included a high monthly water use of 154 gallons per day (“GPD”) per connection in June, and the low water use was 43 GPD per connection in December. The average annual use was 68 GPD per connection.

Figure 4 Water Use



Non-account Water

Non-account water should be 10 percent or less. It is important to be able to reconcile the difference between water sold and the water produced by the source. A water balance will allow a company to identify water and revenue losses due to leakage, theft and flushing. The Company reported 4,736,400 gallons pumped and 4,273,900 gallons sold for the test year, resulting in a water loss of 9.8 percent.

Staff recommends that the Company continue to monitor the water system closely and take action to ensure the loss remains less than 10 percent in the future. If the water loss at any time before the next rate case is greater than 10 percent, the Company shall come up with a plan to reduce water loss to less than 10 percent, or prepare a report containing a detailed analysis and explanation demonstrating why a water loss reduction to 10 percent or less is not feasible or cost effective.

System Analysis

Based on the data provided by the Company, the system's total well production capacity is 81 GPM and storage capacity is 47,080 gallons. The system had 172 connections as of December 2007. Staff concludes that the system's total well production and storage capacities are adequate to serve the present customer base and reasonable growth.

D. GROWTH

Utility Systems did not separate the customer count for each of its two independent water systems, but instead, reported its entire customer base as one in Annual Reports filed with the Commission prior to 2007. Therefore, Staff cannot report or project growth for Christopher Creek using historical annual growth rates. Staff would note, however, that Christopher Creek reported 166 customers during 2001, for its prior rate case, and 172 customers during 2007 test year for this rate case. Based on this information, Staff calculated a growth rate of approximately 1 customer per year and estimated that the Christopher Creek system could have over 177 customers by 2012.

Staff recommends that Utility Systems be required to report the customer count information separately for each of its two independent water systems in future Annual Reports.

E. ADEQ COMPLIANCE

Compliance

According to an ADEQ Compliance Status Report, dated January 17, 2008, ADEQ reported no deficiencies and has determined that the Christopher Creek system (ADEQ Public Water System Identification No. 04-005) is currently delivering water that meets the water quality standards required by Arizona Administrative Code, Title 18, Chapter 4.

Water Testing Expense

Participation in the ADEQ Monitoring Assistance Program ("MAP") is mandatory for water systems, which serve less than 10,000 persons (approximately 3,300 service connections).

The Company reported its water testing expense at \$1,500 for the 2007 test year. Staff has reviewed the Company's water testing expense and has recalculated annual water testing expense by adding MAP fees. Table B shows Staff's adjusted annual monitoring expense estimate of \$2,064 with participation in the MAP (ADEQ - MAP invoice for the 2008 Calendar Year was \$674).

Table B. Water Testing Cost

Monitoring – 3 POE	Cost per test	No. of tests per year	Annual Cost
Total coliform – monthly	\$20	12	\$240
Inorganics – Priority Pollutants	MAP	MAP	MAP
Radiochemical – per 4 years	MAP	MAP	MAP
Phase II and V:			
Nitrate – annual	MAP	MAP	MAP
Nitrite – once per period	MAP	MAP	MAP
Asbestos – per 9 years	MAP	MAP	MAP
MAP – IOCs, SOCs, & VOCs	MAP	MAP	\$674
Lead & Copper –per 3 years	\$30	10/3-yrs	\$100
D/DBP:			
TTHM – annual	\$150	3	\$450
HAA5 - annual	\$200	3	\$600
Total			2,064

F. ADWR COMPLIANCE

The Company is not within an Active Management Area. According to an ADWR Compliance Status Report, dated June 11, 2008, the Company's water system is in compliance with the reporting requirements of *Arizona Revised Statutes* § 45-341-343. Upon completion of its review of the Company's System Water Plan, which includes a Water Supply Plan, Drought Preparedness Plan and Water Conservation Plan, ADWR will issue a letter stating whether or not the System Water Plan filed met ADWR requirements.

G. ACC COMPLIANCE

A check with Utilities Division Compliance Section showed that there are currently no delinquent compliance items for Utility Systems³.

H. DEPRECIATION RATES

In Decision No. 65353, dated November 1, 2002, new depreciation rates for the Company were adopted. The depreciation rate table submitted by the Company with this application did not include certain plant accounts specified in Decision No. 65353. The Company did not provide specific reasons for this deviation. Therefore, Staff recommends that the Company adapt depreciation rate table ordered in Decision No. 65353 as delineated in Table C.

³ Per ACC Compliance status check dated April 21, 2008.

TABLE C
DEPRECIATION RATE TABLE FOR WATER COMPANIES

NARUC Account No.	Depreciable Plant	Average Service Life (Years)	Annual Accrual Rate (%)
304	Structures & Improvements	30	3.33
305	Collecting & Impounding Reservoirs	40	2.50
306	Lake, River, Canal Intakes	40	2.50
307	Wells & Springs	30	3.33
308	Infiltration Galleries	15	6.67
309	Raw Water Supply Mains	50	2.00
310	Power Generation Equipment	20	5.00
311	Pumping Equipment	8	12.5
320	Water Treatment Equipment		
320.1	Water Treatment Plants	30	3.33
320.2	Solution Chemical Feeders	5	20.0
330	Distribution Reservoirs & Standpipes		
330.1	Storage Tanks	45	2.22
330.2	Pressure Tanks	20	5.00
331	Transmission & Distribution Mains	50	2.00
333	Services	30	3.33
334	Meters	12	8.33
335	Hydrants	50	2.00
336	Backflow Prevention Devices	15	6.67
339	Other Plant & Misc Equipment	15	6.67
340	Office Furniture & Equipment	15	6.67
340.1	Computers & Software	5	20.00
341	Transportation Equipment	5	20.00
342	Stores Equipment	25	4.00
343	Tools, Shop & Garage Equipment	20	5.00
344	Laboratory Equipment	10	10.00
345	Power Operated Equipment	20	5.00
346	Communication Equipment	10	10.00
347	Miscellaneous Equipment	10	10.00
348	Other Tangible Plant	----	----

NOTES:

1. These depreciation rates represent average expected rates. Water companies may experience different rates due to variations in construction, environment, or the physical and chemical characteristics of the water.
2. Acct. 348, Other Tangible Plant may vary from 5% to 50%. The depreciation rate would be set in accordance with the specific capital items in this account.

I. OTHER ISSUES

1. Service Line and Meter Installation Charges

The Company has requested changes in its service line and meter installation charges. These charges are refundable advances and the Company requested charges are greater than Staff's customary range of charges. After discussion with Staff, the Company agreed to the upper end of Staff's customary range of charges, except for the 5/8 x 3/4-inch meter. Instead of regular 5/8 x 3/4-inch meter, the Company has proposed to install the Sensus Touch Read Meter.⁴ The Company has requested an average \$465 charge for the 5/8 x 3/4-inch Sensus Touch Read Meter based on recent contractor charges the Company has experienced. To support its request, the Company submitted, on May 19, 2008, an itemized cost breakdown of the proposed \$465 charge for the 5/8 x 3/4-inch Sensus Touch Read Meter, including material and installation costs. In addition the Company has requested charges for road cuts at cost when road crossing is required.

Since the Company may at times install meters on existing service lines, it would be appropriate for some customers to only be charged for the meter installation. Therefore, separate service line and meter charges have been developed by Staff. Staff further recommends graduating the installation charges for a 3/4-inch Sensus Touch Read Meter based on \$465 charge for the 5/8 x 3/4-inch Sensus Touch Read Meter. Staff recommends that the charges labeled "Staff's Recommendation" in Table D below be adopted. Only road cuts costs, if crossing is required, would be determined on case-by-case basis.

Table D Service Line and Meter Installation Charges

Meter Size	Company Current Tariff	Company Proposed Tariff	Staff's Recommendation*		
			Service Line Charge	Meter Charge	Total Charge
5/8 x 3/4-inch	\$480	\$1,200	\$445	\$465**	\$910**
3/4-inch	\$550	\$1,200	\$445	\$565**	\$1,010**
1-inch	\$630	\$1,800	\$495	\$315	\$810
1-1/2-inch	\$800	\$2,200	\$550	\$525	\$1,075
2-inch	\$1,450	\$2,500	\$830	\$1,045	\$1,875
3-inch	\$1,975	N/A	\$1,045	\$1,670	\$2,715
4-inch	\$3,040	N/A	\$1,490	\$2,670	\$4,160
6-inch	\$5,795	N/A	\$2,210	\$5,025	\$7,235
*Note#1: Plus road cuts at cost, when road crossing is required.					
**Note#2: Charge includes Sensus Touch Read Meter					

⁴ The Company anticipates that Sensus Touch Read Meters will improve meter readings accuracy (the Company will not need to resort to bill estimating as frequently) and during the winter months these meters will provide efficiencies when the ground is covered with snow and it is difficult to locate the meters.

2. Curtailment Plan Tariff

The Company has an approved curtailment tariff.

3. Backflow Prevention Tariff

The Company has a backflow prevention tariff for its system.